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TO RUEHC/SECSTATE WASHDC 9240
INFO RUEHBO/AMEMBASSY BOGOTA 3122
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RUEHLP/AMEMBASSY LA PAZ MAR SANTIAGO 0294
RUEHCV/AMEMBASSY CARACAS 9176
RUEHBU/AMEMBASSY BUENOS AIRES 2308
RUEHBR/AMEMBASSY BRASILIA 6577
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RUMIAAA/USCINCSO MIAMI FL
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USTR FOR BHARMAN
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SUBJECT: CONSERVATIVE OR POPULIST? LOURDES' ECONOMIC PLANS

REF: A) LIMA 728 B) LIMA 979

11. (SBU) Summary. Center-right candidate Lourdes Flores has developed an economic plan based on neo-liberal economic policies, including stressing fiscal responsibility, calling for the streamlining of government, endorsing the privatization of state owned enterprises and infrastructure, and promoting free trade. During a March 8 speech in Lima, Flores sought to re-energize her campaign by promoting more populist economic policies. She laid out ten campaign promises -- including creating 650,000 jobs annually, providing 8 million Peruvians with health insurance, and providing \$2 billion in microfinance credit to small businesses. It remains to be seen whether her new promises will increase her support base as Peru heads into the first round of elections. End Summary.

Solid Macroeconomic Plans

12. (U) Flores has surrounded herself with strong neo-liberal economic advisors, whose ideas are clearly reflected in the Unidad Nacional's recently published government plan. The 100-page document emphasizes Peru's current economic problems -- low levels of production and competitiveness; a high debt/GDP ratio; high levels of informality; high levels of poverty and inefficient state institutions -- and provides numerous proposals for how to promote economic development and competitiveness in Peru.

13. (U) Flores' economic blueprint stresses the need to create a favorable investment climate with clear rules of the game and improved customs procedures; the importance of maintaining fiscal prudence and restructuring the tax system; and prioritizing public spending on education, health, and security. A UN Government would streamline the procedures for establishing businesses (it currently takes an average of 98 days to open a business in Peru), would respect intellectual property rights, and would invest heavily in the development of infrastructure, including

ports, airports and highways. Flores' ideas, particularly the reduction of the value added tax and the elimination of discriminatory taxes, have garnered rousing support from the

business community in Peru.

Encouraging Globalization and Investment

¶4. (SBU) In direct contrast to ultra-nationalist candidate Ollanta Humala (Ref A), Flores's government plan also states the importance of integration into the world economy, through increased exports, reduction of tariff levels, and labor reforms. Flores is decidedly pro-trade and supports not only the free trade agreement with the United States, but also pursuing FTAs with other countries. She has gone on record, stating that the current Congress should debate and ratify the agreement and that, if elected, she will not seek to overhaul the accord.

¶5. (SBU) Flores strongly believes that by making Peru more competitive in the world economy, Peru will attract more investment, both domestic and foreign. Peru received less than \$13 billion in foreign direct investment in 2005, only 17 percent of Peru's GDP. In contrast, foreign direct investment in Chile accounted for 26 percent of the GDP in ¶2005. In an effort to alleviate fears of foreign investors and to show disparity with Humala, Flores has indicated that she will respect existing gas, mining and petroleum sector contracts, but that her government is likely to establish tougher contracts for foreign investors in the resources sector. Like Humala, however, Flores has publicly stated that her government would not allow the Chileans to participate in the concessions of Peruvian ports.

Trend Toward Populism?

¶6. (SBU) While Flores continues to lead in the polls, her popularity over Humala and APRA's Alan Garcia has slipped in recent weeks (Ref B). In an effort to re-energize her campaign, during a March 8 speech, Flores deviated from her neo-liberal economic ideas and expounded on ten campaign promises that smacked of populism. Among her campaign pledges, Flores promised to create 650,000 jobs annually, eradicate poverty for three million Peruvians, and provide eight million Peruvians with health insurance. She also emphasized the need to spend 6 percent of GDP on education, and guaranteed the availability of \$2 billion in micro credit for micro enterprises.

¶7. (SBU) Garcia immediately criticized Flores' promise to create 650,000 jobs annually, calling her a liar that could not deliver. He noted to the press that, given the conditions in the current Peruvian market, a new government could realistically create 400,000 jobs annually. (Note: From 1996-2004, an average of 496,000 new jobs were created. This average includes 103,000 new net jobs created in 2000 and 943,000 in May 2003 - Apr2004. Our assessment of the Peruvian labor force shows that, even with high levels of investment and economic growth at a rate of 7 percent or higher, it will take several years before a new government is able to generate the 650,000 jobs. End Note.)

Comment

¶8. (SBU) Flores' economic message has resonated well with the business community, but she has been less successful in attracting the support of poorer Peruvians. It appears that Flores is now listening to advisors, encouraging her to use more populist rhetoric to capture the vote. However, Peruvians may not be convinced by her ten campaign promises, especially as economists show that it is economically unlikely that more than half a million jobs can be created annually.

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